

OFFICE OF THE GOVERNOR
STATE OF MONTANA

BRIAN SCHWEITZER
GOVERNOR



JOHN BOHLINGER
LT. GOVERNOR

April 27, 2006

Honorable Mike McGrath
Attorney General
P.O. Box 201401
Helena, MT 59620-1401

Dear Mike:

I called a meeting last week in Billings to discuss recent drops in oil prices at the wellhead. It was attended by Governors Freudenthal (Wyoming) and Hoeven (North Dakota), along with regional oil producers, pipeline companies, refiners, and others in the industry. We heard from individual oil producers that in the last few months, the price of oil at the wellhead has dropped from over \$60/barrel to as little as \$32/barrel. During the same period, the posted price for West Texas Intermediate crude was in the range of \$65.25/barrel (April 19, 2006). Despite this discount to Montana producers at the wellhead, there has been no corresponding decrease in gasoline and diesel prices at the pump. Rather, prices at the pump are once again rising dramatically.

This dramatic discount at Montana's wellheads translates into lost revenues in Montana at many levels. According to Montana Department of Revenue research, these reduced prices have cost the Montana economy \$102 million since last August. This number does not include a multiplier effect. In the same period, these lower prices have cost state and local government and our schools over \$7 million. Montana's royalty revenue to the school trust has been affected as well. Montana Department of Natural Resources and Conservation estimates that in February 2006 alone, Montana's royalty revenue to this fund decreased in excess of \$46,000. We are absorbing the cost of significantly higher gas prices while at the same time being paid less for our oil.

The math is simple. Someone is walking away with a windfall, while hard-working Montanans are being hit from all directions – from lost profits to oil producers, to lost tax revenue to state and local governments, to decreases to the school trust fund, to higher prices at the pumps.

At the Billings meeting, I asked the question: Who is skimming the money that producers are not receiving at the wellhead? No one offered an answer to the question.

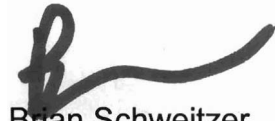
As a result of the meeting in Billings, Governor Freudenthal, who chairs the Interstate Oil and Gas Compact Commission, will create a special task force to examine the causes of the price differentials paid in the Rocky Mountain and northern plains states, and recommend solutions. I will soon name the Montana members of this task force.

Montana law prohibits unfair or deceptive trade practices. Under the Montana Consumer Protection Act, "[u]nfair methods of competition and unfair or deceptive acts or practices in the conduct of any trade or commerce are unlawful." Title 30, chapter 14, part 1, MCA. Under the state Unfair Trade Practices Act, it is unlawful to restrict trade by increasing or reducing the price of commodities and preventing competition in the distribution or sale of commodities. Title 30, chapter 14, part 2, MCA.

As Attorney General, with responsibility for investigating charges of and enforcing unfair trade practices, I ask that you investigate this matter at your earliest possible convenience and undertake all appropriate actions to ensure that price-fixing and anti-trust, unfair and deceptive acts are not occurring in Montana. I mention the task force being created by Governor Freudenthal so that you are advised of its existence and purpose, and because it may develop information and possess resources helpful to you.

Please keep me apprised of the results of your investigation and findings.

Sincerely,

A handwritten signature in dark ink, appearing to be 'B. Schweitzer', with a long, sweeping horizontal line extending to the right.

Brian Schweitzer
GOVERNOR